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July 22, 2011

Hon. David Camp, Chairman, and
Hon. Members of the Committee on Ways and Means
United States House of Representatives
Longworth House Office Building
Washington DC 20000

Re: Testimony for the Hearing on Tax Reform and Consumption-
Based Tax Systems

Hearing Date: July 26, 2011

Ladies and Gentlemen,

I would like to offer the following testimony, as a written submission for the record, in support of the FairTax, H.R. 25, over any generic Value Added Tax ("VAT"), focusing on a point that is frequently overlooked.

The nominal differences between the two taxes are less significant than the effective differences - particularly the tendency of a VAT to compound, and the FairTax not to. The FairTax and the VAT are both consumption taxes. The FairTax is collected only at the point of final retail sale, while a VAT is collected in increments each time a product or service changes

hands on the way to the point of final retail sale.

In theory, the same rate applied to each tax should yield the same total amount of tax at retail on any given product or service. The FairTax does call for the calculation of a uniform tax at each step, see H.R.25, Title II, Chapter 1, Definition 8, but gives full credit for all intermediate sales and exports, See Id., Chapter 2, Section 203. The full tax is collected at the end point of retail sale because there are no intermediate sales or export credits to be had. A VAT, by contrast, is collected in smaller increments at each step along the way with full credit for previous VAT paid.

In theory, there should be no compounding with a VAT. But in practice markups tend to be based on the previous seller's costs. Where those costs include tax, the markup is higher. With the VAT, each middle person pays tax on the cumulative tax-inclusive price passed to him or her plus tax on the value he or she adds, and marks the price up correspondingly. Therefore under a VAT, the cost of a good or service at retail is greater than it would be under the FairTax. The benefit to the government of additional revenue from a VAT is less than the incremental burden to the consumer or to foreign trade.

With the FairTax there is no tax paid by each interim distributor on which mark-up can be based. Without the payment of such tax, there is no effective compounding, and mark-up is based strictly on the net price passed on to the next distributor in the chain. Tax calculation by interim distributors becomes uniquely a reporting function, but one which provides the same audit trail as provided by a VAT.

The effect of the FairTax is that the price of a widget on the retail shelf - or on the ship bound for overseas - is lower than it would be with a VAT. Lower prices stripped of all tax components and stripped of all effective compounding make American-produced goods more competitive in world markets and more affordable to consumers. The ability of the FairTax to wring such expense out of the cost base make the FairTax a powerful economic tool.

The Committee will hear from other witnesses about other advantages of the FairTax over a VAT, but Congress should consider compounding as it deliberates tax reform or, more appropriately, tax replacement.

Respectfully submitted,

/s/James M. Bennett
James M. Bennett

AFFIRMATION

I affirm under penalty of perjury that the factual statements contained in the foregoing discussion are true to the best of my knowledge and ability.

Dated: July 22, 2011

/s/James M. Bennett

James M. Bennett